

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 00965 091803Z

60

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 ABF-01

FSE-00 /072 W

----- 059282

R 091718Z MAR 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 9068

UNCLAS OTTAWA 965

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJ: BANK RATE INCREASED TO 9.5 PERCENT

REF: OTTAWA 938

FOLLOWING IS TEXT OF BANK OF CANADA PRESS COMMUNIQUE ISSUED
MARCH 5 ON INCREASE OF BANK RATE TO 9.5 PERCENT:

BEGIN TEXT. THE BANK OF CANADA ANNOUNCED TODAY THAT THE
BANK RATE IS BEING RAISED FROM 9 PERCENT TO 9.5 PERCENT EFFECT-
IVE MARCH 8, 1976. IT WAS SET AT 9 PERCENT EFFECTIVE SEP-
TEMBER 3, 1975.

THE GOVERNOR OF THE BANK OF CANADA, MR. GERALD K. BOUEY,
SAID THAT THE BANK IS FIRMLY COMMITTED TO A POLICY OF KEEPING
THE RATE OF MONETARY EXPANSION WITHIN MODERATE LIMITS.

THE UNDERLYING RATE OF MONETARY EXPANSION IN CANADA WAS
OBSCURED FROM MID-OCTOBER UNTIL MID-JANUARY BY THE TEMPORARY
BALLOONING OF THE MONEY SUPPLY STATISTICS UNDER THE IMPACT OF
THE POSTAL STRIKE. IN RECENT WEEKS IT HAS BECOME APPARENT
THAT THE TREND OF MONETARY EXPANSION SINCE LAST SPRING
HAS BEEN AND REMAINS UNACCEPTABLY HIGH. THE BANK,
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 00965 091803Z

THEREFORE, HAS BEEN ACTING TO CORRECT THIS SITUATION BY

KEEPING THE SUPPLY OF CASH RESERVES TO THE BANKING SYSTEM UNDER A TIGHTER REIN. ONE OF THE CONSEQUENCES HAS BEEN RENEWED UPWARD PRESSURE ON SHORT-TERM INTEREST RATES IN CANADA AND IT IS NOW NECESSARY TO RAISE THE BANK RATE TO KEEP IT IN LINE WITH RELATED MONEY MARKET RATES.

MEASURED FROM ITS SECOND QUARTER 1975 AVERAGE LEVEL TO FEBRUARY 1976 THE MONEY SUPPLY, DEFINED AS CURRENCY AND DEMAND DEPOSITS, HAS GROWN AT AN ANNUAL RATE OF 15 1/2 PERCENT. THIS IS SUBSTANTIALLY HIGHER THAN THE 10 PERCENT A YEAR TREND RATE OF GROWTH OF THE MONEY SUPPLY OVER THE PREVIOUS TWO YEARS. MONETARY EXPANSION AT A RATE OF 15 PERCENT A YEAR OR HIGHER RISKS ACCOMMODATING A RATE OF INFLATION IN CANADA FULLY AS RAPID AS IT HAS BEEN OVER THE PAST YEAR.

LAST OCTOBER THE BANK INDICATED THAT IN THE CIRCUMSTANCES THE TREND OF MONEY SUPPLY GROWTH SHOULD LIE WITHIN A RANGE OF NOT LESS THAN 10 PERCENT A YEAR BUT BELOW 15 PERCENT. THE OBJECTIVE WAS TO PROVIDE ENOUGH MONETARY ACTIVITY WITH SOME SLACKENING OF THE RATE OF INFLATION. IF THE PATH OF MONETARY EXPANSION IS TO BE CONSISTENT WITH THE DECLINE IN CANADA'S INFLATION RATE ENVISAGED IN THE GOVERNMENT'S ANTI-INFLATION PROGRAMME, THIS TARGET RANGE WILL HAVE TO BE LOWERED GRADUALLY OVER TIME.

IN RECENT MONTHS AN UNUSUALLY WIDE DIFFERENTIAL HAS EMERGED BETWEEN SHORT-TERM INTEREST RATE LEVELS IN CANADA AND IN THE UNITED STATES. THE DIFFERENTIAL, NOW OF THE ORDER OF 4 PERCENTAGE POINTS, HAS WIDENED SINCE SEPTEMBER MAINLY BECAUSE OF A DECLINE IN SHORT-TERM INTEREST RATES IN THE UNITED STATES. AS THE ROOT OF THIS DIFFERENCE IS THE FACT THAT ECONOMIC DEVELOPMENTS IN CANADA HAVE DIVERGED TO AN UNUSUAL EXTENT FROM DEVELOPMENTS IN THE UNITED STATES OVER THE PAST TWO YEARS OR SO. THE LEVEL OF ECONOMIC ACTIVITY IN CANADA HAS BEEN HIGHER AND THE INCREASES IN MONEY INCOMES AND IN PRICES HAVE BEEN MUCH GREATER HERE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 00965 091803Z

THESE DIFFERENCES ARE CLEARLY REFLECTED IN THE FINANCIAL AREA. IN THE UNITED STATES THE DEMAND FOR BANK LOANS HAS BEEN WEAK FOR SOME TIME NOW WHILE IN CANADA IT HAS BEEN RELATIVELY STRONG, AND IT HAS STRENGTHENED MARKEDLY IN RECENT WEEKS. IN THE UNITED STATES THE MONEY SUPPLY HAS TENDED TO GROW AT A SLOWER PACE THAN HAS BEEN SOUGHT WHEREAS IN CANADA THE OPPOSITE IS THE CASE. IN THESE UNUSUAL CIRCUMSTANCES A WIDE

DIVERGENCE OF SHORT-TERM INTEREST RATES IN THE TWO
COUNTRIES IS NOT SURPRISING. END TEXT.
ENDERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, PRESS RELEASES, COMMUNIQUEs, BANK RATES, ANTIINFLATIONARY PROGRAMS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA00965
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760089-0821
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760380/aaaacsmd.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 OTTAWA 938
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 02 SEP 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 SEP 2004 by meiwc>; APPROVED <21 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK RATE INCREASED TO 9.5 PERCENT
TAGS: EFIN, CA, BANK OF CANADA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006